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THE EFFECT OF RECESSION ON THE METROPOLITAN AREAS

by PAUL J. KOZLOWSKI, *Associate Director, The Management Center, and Associate Professor, College of Business Administration, University of Toledo*

The last two years have been extremely disruptive for the region's economy. The industrial heartland surrounding the Great Lakes was hit by a recession less than four years after the severe slump of 1973–1975. Given the region's heavy dependence on the production of durable goods, such as autos and steel, the hard landing is not at all surprising. This time, however, the cyclical downswing has been exacerbated by a sizable and long-lasting slump in auto sales and structural adjustments in the domestic automobile industry. Both have contributed to greater than anticipated cutbacks in production and employment.

After the setbacks experienced in the 1973–1975 recession, the recent business slump is a startling reminder of the acute sensitivity of this part of the country to slowdowns in national business activity. In 1980, the Great Lakes states of Illinois, Indiana, Michigan, Ohio, and Wisconsin posted an average unemployment rate of 9.3 percent, well above the national average of 7.1 percent. As usual, Michigan's jobless rate was the highest, hitting 12.6 percent in 1980 compared to 7.8 percent in 1979. At its previous high in 1975, the state's unemployment rate was 12.5 percent. In addition, personal income in the five-state region rose only 7.4 percent from the third quarter of 1979 to the third quarter of 1980, compared to 10.1 percent nationwide and 13.4 percent and 12 percent in the Southwest and New England, respectively. In Michigan, personal income expanded only 5 percent during that period. Two years ago, the comparable growth rate for the state was 11.8 percent. Without detailing the grim set of interregional economic statistics for the last two years, it is fairly obvious that the burdens of the slowdown and contraction in the national economy have been borne disproportionately by this region.

In Michigan, industrial activity and population are heavily concentrated in eleven Standard Metropolitan Statistical Areas (SMSAs) stretching across the southern half of the state. These SMSAs have suffered job losses and experienced rising unemployment rates over the last two years because of declines in industrial production, which have resulted in sizable layoffs in automobile plants and severe cutbacks in many related industries. As the largest SMSA in the state and one of the largest metropolitan areas in the country, Detroit has received the most attention. But the other SMSAs in Michigan have also been affected, quite severely in some cases. Previous research revealed that the state's SMSAs display wide variations in short-run business activity, associated to a great extent with differences in structural characteristics.[1] How have these areas performed during the most recent slump compared to the severe recession that hit the state in 1973–1975? Are business conditions really much worse in these SMSAs this time; if so, in what way?

This article addresses these questions by examining a set of quarterly economic indicators covering labor market, construction, and financial activity in the state's eleven SMSAs. While overall business activity in these areas conforms fairly closely to national business cycle patterns, downswings in these local economies have been considerably more severe than those of the national economy. Updating and analyzing a set of economic indicators for Michigan SMSAs contained in the regional data base at the University of Toledo reveals some differences as well as

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similarities in the timing, duration, and magnitude of the most recent slump in business activity compared to the 1973–1975 recession. These local economic indicators are listed in Tables 1, 2, and 3.

In tracking business activity in the state's SMSAs during the recent recession, turning points in twelve local series were determined and compared with national business cycle peak and trough dates specified by the National Bureau of Economic Research (NBER). That chronology provides a useful benchmark against which the timing of local peaks and troughs can be measured. The amplitude measures shown in Table 3 are absolute values of the percentage change in each specific local series from its peak to trough, or, conversely, low to high value for local unemployment rate and initial claims for unemployment insurance series. The latter move in a direction opposite to that of business activity in general.

For each of the twelve local indicators, Table 1 shows the number of SMSAs in which cyclical turning points either led, lagged, or were roughly coincident with the last two national business cycle peaks; one occurring in the fourth quarter of 1973 and another in the first quarter of 1980. Note the overwhelming preponderance of leads at the 1980 peak. This leading behavior in relation to the recent national peak is pronounced not only in local series that usually change direction prior to the onset of a recession (such as the average workweek, initial claims for unemployment insurance, deflated total deposits at commercial banks, and new building permits), but also in series of broader coverage (such as total wage and salary employment, manufacturing employment, the unemployment rate, and total loans at commercial banks). The pervasiveness of leads across the economic processes in the SMSAs at the 1980 peak differs from the timing at the 1973 peak. While the average workweek, initial claims, new building permits, and deflated total deposits did lead in most SMSAs in 1973, the leads were substantially longer, on the average, at the 1980 peak. Also, all eleven Michigan SMSAs experienced early downturns in total wage and salary employment and manufacturing employment, with the leads averaging 3.5 and 3.8 quarters, respectively, relative to the 1980 peak. In contrast, the beginning of the recessions in the SMSAs in 1973 coincided fairly closely with the national business cycle downswing, and as Table 1 shows, leads or lags in local total wage and salary and manufacturing employment were fairly short, on the average. Furthermore, note the striking difference in the timing of the cyclical downswings in total loans, consumer installment loans, and commercial and industrial loans at the two peaks. While lagging behavior dominated in 1973, leading behavior was pervasive among the SMSAs in 1980.

It should be noted that while the recent slump in business activity in Michigan SMSAs began well in advance of the national recession, the sequence of changes across local economic processes was exactly the same as during the 1973–1975 period. Early cyclical changes in the average workweek, initial claims for unemployment insurance, new building permits, and deflated total deposits preceded those in employment, unemployment, and total loans. Thus, prior to both recessions, early signals of an impending change in local business activity from expansion to contraction were noticeable in several sensitive economic indicators in the SMSAs. For the most part, the beginnings of cyclical downswings in labor market and construction activity preceded the local contractions in total loans and consumer installment loans.

Table 2 shows the number of SMSAs leading or lagging at the last two national business cycle troughs; one in the first quarter of 1975 and another estimated to have occurred in the third quarter of 1980, around July or August. Although there is a slight leading tendency on the average for most of the local labor market series at the 1980 trough compared to slight lags in the 1975 trough, there is not a considerable difference in the timing of the two recoveries in the SMSAs. With minor variations, business recoveries in Michigan SMSAs began at about the same time as national business recovery. However, there is considerable sluggishness in the local unemployment rates, as six SMSAs (Battle Creek, Grand Rapids, Jackson, Kalamazoo-Portage, Lansing–East Lansing, and Muskegon)

TABLE 1
Number of Michigan SMSAs Leading or Lagging at National Business Cycle Peaks[a]

Series	*National business cycle peak* 1973:4 Leading	Roughly coincident	Lagging	*Average lead (−) or lag (+) quarters*	*National business cycle peak* 1980:1 Leading	Roughly coincident	Lagging	*Average lead (−) or lag (+) quarters*
Average workweek of prod. workers, mfg.	10	0	0	−2.7	11	0	0	−9.2
Average weekly initial claims for unemployment insurance	9	1	1	−2.0	11	0	0	−6.2
Unemployment rate	10	0	1	−1.2	11	0	0	−5.1
Total wage and salary employment	3	6	2	+0.4	11	0	0	−3.5
Manufacturing employment	5	4	2	−0.3	11	0	0	−3.8
Nonmanufacturing employment	1	2	7	+1.7	10	1	0	−2.5
New building permits	10	1	0	−4.0	11	0	0	−7.2
Construction employment	8	1	2	−1.9	11	0	0	−3.7
Deflated total deposits	10	0	1	−1.9	11	0	0	−6.5
Total loans[b]	0	1	8	+2.2	7	3	1	−1.4
Consumer installment loans[b]	0	4	7	+1.6	10	1	0	−1.5
Commercial and industrial loans[b]	2	1	4	+0.9	5	1	0	−3.0

a. Eleven SMSAs were considered for each series. In some cases, a local turning point was not discernible so that some totals are less than eleven.
b. Measured in current dollars.

TABLE 2

Number of Michigan SMSAs Leading or Lagging at National Business Cycle Troughs[a]

Series	National business cycle trough 1975:1 Leading	Roughly coincident	Lagging	Average lead (−) or lag (+) quarters	National business cycle trough 1980:3[b] Leading	Roughly coincident	Lagging	Average lead (−) or lag (+) quarters
Average workweek of prod. workers, mfg.	3	5	2	−0.3	7	4	0	−1.1
Average weekly initial claims for unemployment insurance	1	9	1	+0.1	10	1	0	−0.9
Unemployment rate	0	5	6	+0.7	4	0	7	+0.3
Total wage and salary employment	0	5	6	+1.0	4	7	0	−0.4
Manufacturing employment	0	4	7	+1.2	4	7	0	−0.4
Nonmanufacturing employment	0	6	4	+0.4	3	4	3	−0.6
New building permits	2	5	4	−0.1	11	0	0	−2.2
Construction employment	0	0	11	+4.4	1	9	0	−0.1
Deflated total deposits	2	0	9	+2.4	5	6	0	−0.5
Total loans[c]	1	0	8	+2.3	7	4	0	−0.7
Consumer installment loans[c]	1	0	10	+1.7	4	7	0	−0.4
Commercial and industrial loans[c]	2	0	5	+1.9	2	4	0	−0.7

a. Eleven SMSAs were considered for each series. In some cases, a local turning point was not discernible so that some totals are less than eleven.
b. National and local trough dates are preliminary.
c. Measured in current dollars.

lagged behind the national recovery in 1975 and again in 1980, joined this time by the Detroit SMSA. It is important to note that this behavior is not unique to Michigan; the national jobless rate also exhibits lags at business cycle troughs. In contrast, the Ann Arbor–Ypsilanti, Bay City, Flint, and Saginaw SMSAs hit cyclical highs in their unemployment rates during spring 1980 and have declined since.

Construction and financial activities in the SMSAs seem to have recovered earlier this time compared to 1975, when some fairly long lags were observed. It appears that those sectors began to pick up fairly close to the time that the national recession ended, and so far activity seems to be advancing slowly, as the moderate but ongoing national recovery continues.

The timing summaries show that business activity in most of Michigan's SMSAs began to advance at about the time that the national economy moved from recession to recovery. This is certainly the case for the two major employment series — total wage and salary employment and manufacturing employment. But while that is a good sign, it should be remembered that, during the recent recession, employment began to fall and unemployment started to rise much earlier in Michigan SMSAs than in the nation as a whole. Overall, the timing information from Tables 1 and 2 indicates that while the national economy has just experienced one of its shortest recessions — confined primarily to the first half of 1980 — the falloff in business activity in Michigan SMSAs has lasted considerably longer. The protracted local business slumps, which are attributable to the early onset of recessionary trends in the state, represent a marked difference from 1973–1975, during which time the contraction in local business activity lasted only slightly longer than the national recession.

Was the most recent recession more severe than the 1973–1975 slump? The general impression is that it was. However, the magnitudes of the cyclical contractions in the local indicators shown in Table 3 do not solidly support such a conclusion. The average workweek did fall more during the most recent slump compared to the 1973–1975 recession in eight of the eleven SMSAs. But initial claims for unemployment insurance rose relatively more this time in only three SMSAs — Flint, Lansing–East Lansing, and Saginaw — where the manufacturing sector is heavily concentrated in auto production. In the other SMSAs, the overall rise in initial claims was large in absolute terms, but the relative increase from cyclical lows in 1978 or 1979 to highs in 1980 was smaller than during the 1973–1975 period. Similarly, the magnitude of the increase in the unemployment rate was greater in relative terms only in the Bay City (160.4 percent versus 159.1 percent) and Saginaw (213.0 percent versus 197.3 percent) SMSAs. This does not suggest, however, that joblessness in Michigan SMSAs is less serious this time; it is at least as serious. The reason for the recent relatively moderate increases in the unemployment rate is that ten of the eleven SMSAs entered the 1980 recession with a significantly higher jobless rate than existed prior to the start of the recession in 1973. The Grand Rapids SMSA is the only exception. Also, the cyclical highs in the local unemployment rates in 1980 were not considerably above those of 1975. The Flint SMSA is a good example. In summer 1973, the jobless rate in Flint hit a seasonally adjusted cyclical low of 5.3 percent then rose to a high of 18.5 percent in the first quarter of 1975. The pre-1980 recession low in Flint was 7.5 percent in the second quarter of 1978, and the cyclical high was 21.4 percent in spring 1980. Similarly, in the Detroit SMSA, the pre-1980 recession low for the unemployment rate was 6.4 percent in the second quarter of 1978, compared to 5.5 percent in the third quarter of 1973; it rose to an average of 14.2 percent in the last three months of 1980, compared to 12.7 percent in the first quarter of 1975. In contrast, the unemployment rate in the Grand Rapids SMSA rose from a relatively low level of 4.9 percent in the first quarter of 1978 to 9.6 percent in the fourth quarter of 1980, compared to a jump from

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Michigan Economic Indicators

Item	Year previous of latest month	Previous month	Latest month
Manufacturing workers:			
Average weekly hours, Michigan	39.9	41.1	40.1 (Feb.)
Average weekly hours, U.S.	39.8	39.9	39.5 (Feb.)
Average hourly earnings, Michigan ($)	9.13	10.16	10.11 (Feb.)
Average hourly earnings, U.S. ($)	7.00	7.73	7.74 (Feb.
U.S. motor vehicle production (units)	794,331	613,274	786,623 (Mar.)
Michigan electricity usage (mil. kwh.)	6,278	6,082	6,296 (Jan.)
Industrial (mil. kwh.)	2,544	2,643	2,357 (Jan.)
Residential (mil. kwh.)	2,239	2,008	2,382 (Jan.)
Raw steel production:			
Michigan (000 net tons)	810	770	702 (Feb.)
United States (000 net tons)	10,332	10,590	10,028 (Feb.)
Consumer price index (1967 = 100)			
Detroit area	242.9	269.0	268.2 (Mar.)
United States	239.8	263.3	265.1 (Mar.)
U.S. wholesale price index (1967 = 100)	261.5	286.9	289.6 (Mar.)
Michigan farm prices received index (1967 = 100)	236	259	260 (Mar.)

SOURCES: U.S. Bureau of the Census; U.S. Bureau of Labor Statistics; Michigan Crop Reporting Service; Motor Vehicle Manufacturers Association, Inc.; American Iron and Steel Institute; and Energy Information Administration.

Contracts for Future Building, First 2 Months: 1980 and 1981

(Thousands of Dollars)

Area	Nonresidential 1979	Nonresidential 1980	Nonresidential Percentage change	Residential 1979	Residential 1980	Residential Percentage change	Total[a] 1979	Total[a] 1980	Total[a] Percentage change
Ann Arbor	11,727	6,562	− 44	5,849	7,354	+ 26	17,576	13,916	− 21
Battle Creek	1,051	2,661	+153	894	1,121	+ 25	1,945	3,782	+ 94
Bay City	215	784	+ 32	529	617	+ 17	744	1,401	+ 88
Detroit	102,529	135,243	+ 32	78,458	55,181	− 30	180,987	190,424	+ 5
Flint	13,720	9,252	− 33	4,982	6,675	+ 34	18,702	15,927	− 15
Grand Rapids	47,554	11,268	− 76	18,378	9,851	− 46	65,932	21,119	− 68
Jackson	3,963	5,233	+ 32	886	3,755	+324	4,849	8,988	+ 85
Kalamazoo-Portage	2,125	2,019	− 5	5,123	5,876	+ 15	7,248	7,895	+ 9
Lansing–East Lansing	9,759	7,516	− 23	15,247	15,695	+ 3	25,006	23,211	− 7
Muskegon–Norton Shores–Muskegon Heights	656	784	+ 20	2,652	1,772	− 33	3,308	2,556	− 23
Saginaw/Toledo	3,855	742	− 81	4,603	1,337	− 71	8,458	2,079	− 75
	21,301	13,342	− 37	16,026	19,989	+ 25	37,327	33,331	− 11
Michigan	209,474	194,044	− 7	166,937	134,752	− 19	376,411	328,796	− 13
United States	7,763,100	8,207,200	+ 6	8,420,200	8,412,200	——	16,624,600	16,178,100	+ 3

SOURCE: F. W. Dodge Division of McGraw-Hill Information Systems Company, news releases.

NOTE: Battle Creek includes Barry and Calhoun counties; Detroit includes Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties; Flint includes Genesee and Shiawassee counties; Grand Rapids includes Kent and Ottawa counties; Kalamazoo-Portage includes Kalamazoo and Van Buren counties; Lansing–East Lansing includes Clinton, Eaton, Ingham, and Ionia counties; and Muskegon–Norton Shores–Muskegon Heights includes Muskegon and Oceana counties.

a. Excludes nonbuilding construction contracts. This category comprises streets and highways, bridges, dams, reservoirs, river and harbor developments, sewerage and water supply systems, missile and space flight facilities, airports, utilities, and communication systems. For Michigan the 1980 and 1981 figures for nonbuilding construction contracts were $70,900,000 and $99,235,000 respectively, or an increase of 40 percent. U. S. figures for nonbuilding construction contracts were $4,721,100 and $4,471,800 or a decrease of 6 percent.

Year-to-Year Change in Selected Economic Indicators

Percentage change from previous year

Indicator	1980 Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1981 Jan.	Feb.	Mar.
Civilian employment													
United States	+ 1.1	+ .9	+ .5	− .1	− .3	− .1	− .3	− .2	− .1	− .5	−	+ .1	+ .8
Michigan	− 4.3	− 4.4	− 7.9	− 7.2	− 8.2	− 5.0	− 6.1	− 6.3	− 6.3	− 4.9	− 3.3	− 4.0	− 2.1
Detroit area[a]	− 5.6	− 5.9	− 9.5	− 9.0	− 9.5	− 6.1	− 7.3	− 7.0	− 6.6	− 5.6	− 4.1	− 5.0	− 2.9
Outstate[b]	− 3.1	− 2.9	− 6.4	− 5.7	− 7.0	− 4.1	− 5.1	− 5.6	− 6.1	− 4.2	− 2.6	− 3.2	− 1.4
Wage and salary jobs[c]													
United States	+ 1.9	+ 1.7	+ .9	+ .1	− .2	−	+ .1	+ .2	+ .4	+ .5	+ .5	+ .5	+ .5
Michigan	− 3.7	− 5.3	− 7.4	− 7.5	− 8.2	− 6.1	− 5.8	− 4.3	− 3.0	− 3.3	− 1.8	− 2.2	− 1.4
Detroit area[a]	− 5.1	− 6.8	− 8.8	− 8.4	− 8.5	− 5.9	− 5.5	− 4.5	− 3.2	− 4.0	− 3.1	− 3.1	− 2.2
Outstate[b]	− 2.3	− 3.9	− 6.1	− 6.6	− 7.9	− 6.2	− 6.0	− 4.1	− 2.7	− 2.7	− .6	− 1.4	− .7
Average workweek[d]													
United States	− 2.0	+ 1.3	− 2.0	− 2.5	− 2.8	− 1.8	− 1.2	− 1.2	− .2	− .2	+ .3	− .8	+ .5
Michigan	− 6.5	+ 6.4	− 6.4	− 5.5	− 3.6	− 2.2	− 1.2	−	+ 4.3	+ 1.0	+ 2.5	+ .5	
Average weekly earnings[e]													
United States	+ 5.5	+ 9.6	+ 5.4	+ 5.3	+ 5.5	+ 7.0	+ 7.8	+ 8.3	+10.2	+10.1	+11.3	+ 9.7	+ 10.7
Michigan	+ .3	+14.6	− 2.2	+ 1.5	+ 3.4	+ 6.6	+ 8.9	+11.7	+17.5	+13.8	+14.9	+ 11.3	
Motor vehicle assembly													
United States	−36.6	−28.5	−50.2	−43.7	−48.2	−32.4	−17.6	−16.7	−13.4	+ .9	−13.4	− 23.2	− 7.4
Michigan	−49.7	−40.6	−62.1	−50.9	−54.4	−35.8	−20.1	−16.2	−19.7	+15.0	− 8.7	− 17.9	+ 21.5
General Motors	−45.0	−36.0	−60.9	−49.3	−44.9	−36.9	−22.7	− 9.2	−29.5	+ 8.3	−12.7	− 35.8	+ 12.2
Ford	−47.2	−46.7	−54.1	−34.7	−69.0	−31.3	−15.7	−18.0	− 1.5	+42.8	− 4.9	+ 12.3	+ 10.1
Chrysler	−74.0	−54.9	−77.1	−73.7	−86.2	−48.5	−16.5	+34.5	+ 5.2	+11.2	+23.8	+137.5	+143.3
Steel tonnage poured													
United States	− 9.0	−12.6	−27.9	−38.7	−42.5	−37.9	−26.3	−12.7	+ .6	+ 1.8	− 1.0	− 2.9	+ 2.9
Michigan	−20.7	−18.7	−42.9	−62.7	−54.8	−52.0	−33.4	−10.4	+ .8	− 6.0	− 8.3	− 13.3	−
Commercial electricity consumption													
United States	− 2.1	− .7	+ 1.7	+ 1.4	− .8	+ 1.1	+ 6.4	+ 7.9	+ 8.3	+ 2.4	+ 6.4		
Michigan	− 2.7	+ .7	+ .2	+ 3.9	− 2.8	− 4.4	+ 2.0	+ 4.6	+ 5.2	+ .1	+ 4.8		
Industrial electricity consumption													
United States	− 1.0	+ 1.1	− 1.0	− 2.8	− 6.4	− 7.2	− 7.7	− 6.4	− 2.0	+ 1.8	− .7		
Michigan	−16.0	−10.1	−14.7	−10.3	−26.1	−28.2	−19.8	−13.3	− 9.8	+ 4.8	− 7.4		
Nonresidential construction contracts													
United States	+ 3	− 5	− 7	+ 6	+ 6	− 2	− 1	+ 6	+34	+37	− 4	+ 17	+ 32
Michigan	−24	+ 1	+15	+ 8	+31	−38	−41	+10	+100	+13	−35	+ 39	− 25
Residential construction contracts													
United States	−34	−39	−44	−30	−11	−17	− 2	− 3	+24	+33	+ 4	− 4	+ 34
Michigan	−37	−69	−55	−55	−37	−38	−22	+ 5	+ 8	+17	−28	− 12	− 11
Nonbuilding construction contracts													
United States	−36	−50	−33	−24	−41	+76	+ 3	−13	−26	−18	−18	− 9	+ 7
Michigan	+28	−51	−41	−24	−29	− 8	+35	−11	+53	+13	+52	+ 34	− 33
Retail sales													
United States	+ 4.0	+ 5.4	+ 4.8	+ 2.3	+ 9.5	+ 3.8	+ 5.6	+ 8.6	+ 4.9	+ 8.9	+ 9.6	+ 5.2	
Michigan	− 3.2	− 1.3	− 3.6	− 5.5	− 6.2	− 2.0	+ 1.3	+ 3.7	− .7	+ 3.9	+ 4.8	+ 3.5	
Detroit area[a]	− 1.5	+ .5	− 3.5	− 3.5	+ 9.0	+ 1.6	+ 6.3	+10.3	− 5.4	+ 7.4	+ 8.4	+ 5.6	
Detroit city	+ 4.5	0	− 5.5	−10.2	− 4.5	− 9.2	− 3.0	+ .7	−13.2	− 6.5	− 1.6	+ 5.0	
Suburbs	− 2.7	+ .5	− 3.1	− 2.2	+11.9	+ 3.8	+ 8.1	+12.2	− 3.9	+10.0	+10.6	+ 5.7	
Outstate[b]	− 5.4	− 3.4	− 3.8	− 8.0	+ 3.0	− 6.0	− 4.3	− 3.6	+ 5.0	− .5	− .3	+ .9	
Consumer price index													
United States	+14.7	+14.7	+14.4	+14.3	+13.2	+12.8	+12.7	+12.6	+12.6	+12.4	+11.7	+ 11.4	+ 10.6
Detroit[a]	+14.8	+16.4	+16.1	+19.2	+15.6	+14.8	+16.0	+16.3	+15.2	+15.7	+13.2	+ 11.9	+ 10.3

SOURCE: Michigan Employment Security Commission, special release; Bureau of Labor Statistics, *The Employment Situation* (monthly); Motor Vehicle Manufacturers Association, special release; American Iron and Steel Institute, special release; Energy Information Administration, special release; F. W. Dodge Division of McGraw-Hill Information Systems Company, news releases (monthly); and Bureau of the Census, *Monthly Retail Trade*.

a. Wayne, Oakland, Macomb, Livingston, Lapeer, and St. Clair counties.
b. Michigan minus Detroit area.
c. The number of wage and salary jobs, except agricultural, reported by employers.
d. Average hours worked by manufacturing production workers.
e. Average earnings among manufacturing production workers.

Quarterly Personal Income in Michigan

Item	Millions of dollars, annual rates, seasonally adjusted							Percentage change 1980(3) to 1980(4)	
	1979			1980					
	2	3	4	1	2	3	4	Michigan	United States
TOTAL LABOR AND PROPRIETORS' INCOME BY PLACE OF WORK									
By type									
Wage and salary disbursements	57,715	57,370	56,989	58,599	55,675	56,942	61,006	+ 7.1	+ 4.1
Other labor income	7,726	7,691	7,644	7,994	7,655	8,001	8,680	+ 8.5	+ 3.2
Proprietors' income	4,033	4,163	4,258	4,042	3,755	3,911	4,054	+ 3.7	+ 3.5
Farm	656	646	666	415	397	384	395	+ 2.8	+ 2.0
Nonfarm	3,377	3,517	3,592	3,628	3,358	3,527	3,659	+ 3.7	+ 3.7
By industry									
Farm	839	831	852	610	596	587	598	+ 1.9	+ 1.5
Nonfarm	68,636	68,392	68,039	70,025	66,489	68,267	73,142	+ 7.1	+ 4.0
Private	59,594	59,154	58,653	60,461	56,758	58,452	63,167	+ 8.1	+ 4.2
Ag. Serv., For., Fish., and other	155	159	161	161	163	162	162	—	− .2
Mining	357	357	368	383	368	322	393	+22.0	+ 8.6
Construction	3,323	3,406	3,383	3,440	2,827	2,733	2,979	+ 9.0	+ 5.7
Manufacturing	30,087	28,869	27,988	29,069	26,329	27,485	31,049	+13.0	+ 5.1
Nondurable goods	4,443	4,390	4,475	4,426	4,310	4,418	4,648	+ 5.2	+ 3.4
Durable goods	25,644	24,479	23,514	24,643	22,019	23,067	26,401	+10.1	+ 6.1
Transportation and public utilities	3,805	3,839	3,920	3,873	3,885	3,903	4,081	+ 4.6	+ 4.0
Wholesale trade	3,590	3,676	3,679	3,743	3,646	3,665	3,781	+ 3.2	+ 3.6
Retail trade	6,051	6,112	6,210	6,326	6,068	6,266	6,416	+ 2.4	+ 2.6
Finance, insurance, and real estate	2,628	2,757	2,742	2,902	2,890	3,008	3,112	+ 3.5	+ 3.6
Services	9,598	9,979	10,202	10,564	10,585	10,907	11,194	+ 2.6	+ 3.2
Government and government enterprises	9,042	9,238	9,386	9,564	9,730	9,815	9,975	+ 1.6	+ 3.4
Federal, civilian	1,075	1,068	1,088	1,096	1,104	1,144	1,200	+ 4.9	+ 5.0
Federal, military	196	195	203	198	200	201	222	+10.4	+12.17
State and local	7,771	7,975	8,094	8,270	8,426	8,469	8,553	+ 1.0	+ 1.7
DERIVATION OF PERSONAL INCOME BY PLACE OF RESIDENCE									
Total labor and proprietors' income by place of work	69,475	69,224	68,891	70,635	67,085	68,854	73,740	+ 7.0	+ 3.9
Less Personal contributions for social insurance by place of work	3,530	3,501	3,461	3,651	3,428	3,514	3,770	+ 7.3	+ 3.5
Net labor and proprietors' income by place of work	65,945	65,723	65,424	66,984	63,657	65,340	69,970	+ 7.1	+ 4.0
Plus: Residence adjustment	431	440	452	457	457	460	480	+ 4.3	− 4.7
Net labor and proprietors' income by place of residence	66,376	66,163	65,876	67,441	64,114	65,800	70,450	+ 7.0	+ 4.0
Plus: Dividends, interest, and rent	9,816	10,081	10,537	11,104	11,627	11,927	12,210	+ 2.8	+ 2.7
Plus: Transfer payments	9,622	10,518	10,920	11,318	12,070	13,041	12,804	− 1.8	+10.6
State U.I. benefits	465	736	953	1,030	1,631	1,543	1,128	−26.9	− 7.6
Transfers excluding state U.I.	9,157	9,782	9,967	10,288	10,438	11,498	11,676	+ 1.5	+ 1.6
Personal income by place of residence	85,814	86,762	87,333	89,863	87,810	90,769	95,463	+ 5.2	+ 3.4

SOURCE: Bureau of Economic Analysis, Regional Economics Information System.

THE EFFECT OF RECESSION ON THE METROPOLITAN AREAS

(Continued from page 3)

5 percent to 12.3 percent from the third quarter of 1973 to the second quarter of 1975. With the exception of the Grand Rapids SMSA, therefore, business expansions in the SMSAs have failed to pull the local unemployment rates below previous prerecession lows. The result is a longer term upward drift in the jobless rates in most Michigan SMSAs.

During the recent recession, the steepest declines in employment occurred in the Flint and Saginaw SMSAs, where manufacturing employment dropped 25.8 percent and 28.1 percent, respectively. Due to the size of the manufacturing sectors in those two SMSAs, total wage and salary employment fell a hefty 12.1 percent in the former and 11.3 percent in the latter. Interestingly, the employment declines in the Flint SMSA were slightly less this time than during the 1973–1975 period, but those in the Saginaw SMSA were somewhat more severe. In addition to Saginaw, four other SMSAs (Battle Creek, Bay City, Detroit, and Muskegon) experienced more severe declines in manufacturing employment in the recent slump compared to the 1973–1975 recession. The Grand Rapids SMSA was the least affected of the group, with manufacturing employment falling only 8.8 percent. The Kalamazoo-Portage SMSA ranked second; manufacturing employment dropped 13 percent, which is about the same as the setback registered during the 1973–1975 recession in that area. Note that, overall, only five SMSAs (Bay City, Detroit, Jackson, Muskegon, and Saginaw) displayed greater declines in total wage and salary employment this time than during 1973–1975. In the Jackson SMSA, the larger decline in total wage and salary employment appears to be attributable to a substantially larger drop in nonmanufacturing employment than that which occurred during the 1973–1975 slump.

Of the eleven SMSAs, Grand Rapids and Kalamazoo-Portage, located in western Michigan, stand out as the local economies with the lowest degree of sensitivity to national recessions in terms of labor market activity. This is not surprising, since both areas are considerably less dependent on the auto industry than SMSAs located in eastern Michigan.

The Bay City and Jackson SMSAs suffered the most severe setbacks in new building permits (92.1 percent and 87.2 percent) and construction employment (32.3 percent and 41.6 percent) during the most recent slump. In both areas, the declines exceeded those registered during the 1973–1975 recession. Except for the Muskegon SMSA, where construction employment fell 30.6 percent this time compared to 17.4 percent during the 1973–1975 period, the recent declines in local building activity seem to be somewhat more moderate than the sizable setbacks that occurred in the mid-1970s.

TABLE 3

Amplitude of Contractions in Specific Series Conforming to the 1980 and 1973–1975 National Recessions[a]

Series	*Ann Arbor-Ypsilanti*	*Battle Creek*	*Bay City*	*Detroit*	*Flint*	*Grand Rapids*	*Jackson*	*Kalamazoo-Portage*	*Lansing-E. Lansing*	*Muskegon-Norton Shrs.-Muskegon Heights*	*Saginaw*
Average workweek of prod. workers, mfg.	17.7 (13.8)	5.5 (6.0)	19.6 [b]	9.2 (12.3)	16.0 (14.2)	6.1 (5.3)	8.7 (7.8)	5.5 (6.8)	18.4 (14.8)	(72.7) 30.6	16.4 (13.1)
Average weekly initial-claims for unemployment insurance	494.4 (639.0)	176.0 (403.7)	234.9 (269.4)	266.6 (366.6)	545.0 (522.7)	258.5 (451.8)	255.3 (283.1)	175.0 (275.5)	484.6 (218.4)	(17.4) 21.6	803.9 (471.1)
Unemployment rate	89.1 (235.4)	104.8 (153.8)	160.4 (151.9)	121.3 (149.4)	189.2 (249.1)	97.5 (146.5)	135.3 (217.2)	94.5 (168.9)	102.0 (208.1)	(11.6) 4.2	213.0 (197.3)
Total wage and salary employment	5.1 (7.7)	6.0 (6.2)	8.3 (6.3)	8.5 (8.1)	12.1 (13.7)	2.2 (5.2)	9.4 (7.9)	3.3 (3.3)	2.9 (2.9)	[b] 16.0	11.3 (7.6)
Manufacturing employment	15.4 (26.6)	17.8 (2.2)	22.2 (20.2)	23.3 (20.1)	25.8 (26.0)	8.8 (18.1)	21.4 (26.5)	13.0 (13.6)	21.9 (24.2)	(6.3) 24.1	28.1 (20.9)
Nonmanufacturing employment	2.0 (4.8)	(16.0) 2.2	3.5 (1.6)	2.5 (3.6)	2.6 (5.3)	[b] (1.1)	7.2 (4.2)	2.3 [b]	0.9 (2.1)	[b] 7.9	3.4 (3.2)
New building permits	50.0 (88.6)	50.6 (84.5)	92.1 (72.3)	45.2 (67.5)	58.4 (79.6)	35.4 (46.3)	87.2 (33.9)	60.9 (75.3)	38.2 (71.2)	(7.5) 127.6	65.7 (73.7)
Construction employment	21.2 (43.6)	11.0 (35.0)	32.3 (30.8)	20.3 (23.1)	[b] (53.2)	15.4 (19.8)	41.6 (30.0)	10.6 (13.6)	11.2 (22.6)	(220.3) 104.3	32.1 (40.5)
Deflated total deposits	14.8 (8.9)	19.6 (16.5)	15.5 (17.8)	19.9 (11.2)	17.8 (14.0)	15.0 (9.1)	21.5 (11.1)	12.7 (14.6)	25.6 (16.1)	(146.0) 7.1	12.3 (6.8)
Total loans[c]	3.0 [b]	8.9 (9.8)	2.1 (4.1)	1.3 (6.5)	3.3 (3.1)	2.8 (4.8)	10.0 (6.4)	5.0 (4.1)	7.0 (4.4)	(4.1) 23.2	2.0 (2.8)
Consumer installment loans[c,d]	22.1 (4.3)	17.7 (32.5)	9.4 (9.0)	13.5 (9.8)	15.5 (6.0)	15.7 (8.7)	13.6 (14.4)	11.8 [b]	12.2 (8.4)	(16.0) 1.7	11.1 (6.2)
Commercial and industrial loans[c,d]	[b] [b]	15.0 (26.1)	12.9 (21.4)	[b] (7.3)	[b] (6.3)	[b] (5.6)	22.9 (18.3)	9.3 [b]	15.0 [b]	(1.6) 40.1	[b] (12.2)

a. Amplitude measures represent absolute values of percentage changes from peak to trough for specific phases conforming to the national recessions. Numbers in parentheses are the measures for the 1973–1975 recession.
b. Contraction phase not evident.
c. Measured in current dollars.
d. Measures based on seasonally unadjusted data.

The amplitude measures for the four local financial series show that the falloff in total deposits and total loans in the SMSAs during the recent recession was at least as severe as that of the 1973–1975 period. The most precipitous declines in the deflated value of total deposits at commercial banks occurred in the Lansing–East Lansing SMSA (25.6 percent), followed by Muskegon (21.6 percent), Jackson (21.5 percent), Detroit (19.9 percent), and Battle Creek (19.6 percent). Compared to the 1973–1975 recession, the falloff in deflated total deposits was considerably greater this time in Jackson (11.1 percent versus 21.5 percent), Muskegon (11.6 percent versus 21.6 percent), and Saginaw (6.8 percent versus 12.3 percent). Only in the Bay City and Kalamazoo-Portage SMSAs were the downswings in deflated total deposits less than during the 1973–1975 recession.

With regard to total loans in the SMSAs, Detroit exhibited a relatively moderate drop of 1.3 percent in current dollar terms during the recent slump compared to a 6.5 percent drop in the 1973–1975 period. That is the best performance among the eleven SMSAs. In contrast, the Jackson area experienced a much more severe decline in total loans in the recent period, 10 percent compared to 6.4 percent in 1973–1975. In the Ann Arbor–Ypsilanti and Muskegon SMSAs, where the current dollar value of total loans did not fall during 1973–1975, total loans slipped 3.0 percent and 4.2 percent, respectively, during the recent recession.

The magnitudes of the declines in consumer installment loans indicate why the recent downswings in total loans in most of the SMSAs were either close to or somewhat greater than those of the 1973–1975 period. In nine of eleven SMSAs, consumer installment loans dropped more in the recent recession than during the 1973–1975 slump. In the Ann Arbor–Ypsilanti SMSA there is a considerable difference, a 22.1 percent fall this time compared to a modest drop of 4.3 percent during the mid-1970s. Also, notice that consumer installment loans did not decline at all during the 1973–1975 recession in the Kalamazoo-Portage SMSA but fell off 11.8 percent during the most recent slump. Furthermore, it is interesting to note that while the Battle Creek SMSA suffered the second most severe contraction in consumer installment loans among the SMSAs during the recent slump, the 17.7 percent decline in that area was substantially less than the 32.5 percent drop recorded during the 1973–1975 period.

Finally, the behavior of commercial and industrial loans is mixed. Five SMSAs (Ann Arbor–Ypsilanti, Detroit, Flint, Grand Rapids, and Saginaw) did not display absolute declines that could be classified as conforming to the recent recession. However, in the Jackson, Kalamazoo-Portage, Lansing–East Lansing, and Muskegon SMSAs, the contractions in commercial and industrial loans were certainly more severe compared to the experience in 1973–1975.

The timing and amplitude measures presented in the tables for the 1973–1975 and 1980 recessions lead to several conclusions about business activity in Michigan SMSAs during the two periods. In both, the slumps in the local metropolitan economies were widely diffused across labor market, construction, and financial activities. But in the recent recession, the slump in business activity in the Michigan SMSAs began well in advance of the national recession that started in early 1980. Clear signs of a cyclical decline were evident in the average workweek, initial claims for unemployment insurance, new building permits, and deflated total deposits in all Michigan SMSAs in 1979 and in some cases 1978. Although there is considerable variation in the trough dates for labor market, construction, and financial indicators across the SMSAs, the local economies in the state began to recover at about the time the previous national recession ended. Therefore, the overall duration of the recent slump in business activity has been considerably longer in Michigan SMSAs compared to the nation as a whole. The severity of the recent recession in the SMSAs appears to be very close to, and in some cases somewhat worse than (deposits and loans, for example), the severe business slump that hit the state in 1973. However, while the most recent recession seems to be very close in order of magnitude to that of 1973–1975, its distinguishing characteristic is duration. It has simply lasted a good deal longer than the previous slump, and the recovery so far has been weak, with little to suggest that a robust regional business expansion is about to start. Consequently, many of Michigan's SMSAs appear to be in the midst of a protracted period of depressed economic activity.

Note

1. Paul J. Kozlowski, *Business Conditions in Michigan Metropolitan Areas* (Kalamazoo: Upjohn Institute for Employment Research, 1979).

BRIEF

For the construction industry as a whole, 1981 promises to be another very lean year. Interest rates for home mortgages will remain above 12 percent. The supply of mortgage money at savings and loan associations is being affected by deregulation of the nation's financial institutions. With deregulation, the S&Ls lose their advantage of offering higher returns to small depositors than do commercial banks. However, they will be able to compete with banks for NOW accounts. On balance the outcome is not clear. It is likely that the residential market will be depressed by the money situation until mid-year, when a modest recovery will begin.

CONGRESS INFO SERV 039058 WG
ATTN ED KIANKA 1
7101 WISCONSIN AVE
WASHINGTON DC 20014